Saskatchewan Government Insurance

Superannuation Plan

2002

Annual Report

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AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of net assets available for benefits of the Saskatchewan Government Insurance Superannuation Plan as at December 31, 2002, and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2002, and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 14, 2003

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SASKATCHEWAN GOVERNMENT INSURANCE

SUPERANNUATION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

	2002	2001
ASSETS		
Investments (Note 3)		
Bonds and debentures	$ 27,219,900	$ 29,292,812
Money market instruments	1,814,772	1,739,652
Pooled equity fund	2,297,654	1,887,811
Shares	17,044,939	19,837,472
	48,377,265	52,757,747
Accrued interest and dividends	305,780	371,107
Cash	630,588	-
TOTAL ASSETS	**49,313,633**	53,128,854
LIABILITIES		
Bank overdraft	-	13,720
Accounts payable	20,830	20,374
TOTAL LIABILITIES	**20,830**	34,094
NET ASSETS AVAILABLE FOR BENEFITS	**$ 49,292,803**	$ 53,094,760

Approved by the Superannuation Committee:

K. Taylor
Chair

J. Crighton
Member Representative

K. Klein
CIC Representative

(See accompanying notes)

SASKATCHEWAN GOVERNMENT INSURANCE

SUPERANNUATION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year Ended December 31

	2002	2001
INCREASE IN ASSETS		
Investment income		
Interest	$ 1,614,880	$ 1,818,962
Dividends	328,873	351,228
Rental income	-	957
Net gain (loss) on sale of investments	(676,630)	799,909
Investment expenses	(91,508)	(97,363)
	1,175,615	2,873,693
Employee contributions (Note 1(b))	108,424	110,428
TOTAL INCREASE IN ASSETS	**1,284,039**	2,984,121
DECREASE IN ASSETS		
Pension benefits paid	3,030,973	3,005,550
Termination refunds	261,150	199,825
Direct expenses (Note 6)	42,942	32,261
Current period unrealized loss in market value of investments	1,750,931	1,418,903
TOTAL DECREASE IN ASSETS	**5,085,996**	4,656,539
DECREASE IN NET ASSETS	**3,801,957**	1,672,418
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	**53,094,760**	54,767,178
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	**$ 49,292,803**	$ 53,094,760

(See accompanying notes)

SASKATCHEWAN GOVERNMENT INSURANCE

SUPERANNUATION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

1. DESCRIPTION OF PLAN

The following description of the Contributory Superannuation Plan for Employees of Saskatchewan Government Insurance (the Plan) is a summary only. For more complete information, reference should be made to the Plan Text.

(a) General

The Plan is a contributory defined benefit pension plan covering some employees of Saskatchewan Government Insurance (SGI). This Plan is operated pursuant to Section 17 of the Saskatchewan Government Insurance Act, 1980. Since 1980, new employees hired are required to join the Capital Pension Plan.

(b) Funding Policy

(i) Contributions are made to the Plan by SGI and Plan members. SGI contributes such amounts as recommended by the actuary in order that the benefits under the Plan may be properly funded. Employees contribute 6.5% of earnings, less a portion of their contributions to the Canada Pension Plan.

(ii) Based on an approval from the provincial Superintendent of Pensions, SGI has an employer funding holiday ending Dec. 31, 2002.

(c) Service Pensions

The Plan provides for a full pension at retirement based on the number of years of service times the average of the highest five years earnings. Effective Jan. 1, 2000 to Dec. 31, 2002 plan members who are less than age 65 but have completed 30 years of service may select early retirement with no reduction to pension. Plan members who are less than age 65 and have less than 30 years of service may select early retirement with a reduced pension.

(d) Disability Pensions

The Plan provides for early retirement when a Plan member is permanently incapable, due to medical reasons, of performing their regular job duties.

(e) Survivors' Pensions

The type of pension selected by the Plan member will determine the amount, if any, to be paid as pension to the survivor.

(f) Death Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to their full extent and plan conditions permit.

In a similar manner, a death refund is payable to the spouse, if any, otherwise to the estate or designated beneficiary of a member where the member is not a pensioner.

(g) Termination Refunds

When a member ceases to be employed by SGI, subject to lock-in provisions, termination refunds with interest on the contributions are payable.

(h) Income Taxes

The Plan is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Plan are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

(a) Basis of Presentation

These financial statements are prepared on a going concern basis and present the financial position of the Plan as a separate entity independent of SGI and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

(b) Investments

Bonds and debentures, pooled equity fund and shares are recorded at market value, based on year-end market quotations. Real estate investments are valued based on independent appraisals. Transactions are recorded as of the trade date.

(c) Foreign Currencies

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are

adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sale of investments are included in investment income.

3. INVESTMENTS

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(a) Bonds and debentures

The Plan's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures. A minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The market value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Interest is generally receivable on a semi-annual basis.

	2002		2001	
Term to Maturity (years)	Market Value	Average Effective Rates	Market Value	Average Effective Rates
Government of Canada:				
After one through five	$ 9,059,955	3.4%	$ 6,619,613	3.4%
After five	5,626,353	5.1%	8,907,252	5.5%
Province of Saskatchewan:				
After one through five	-	-	171,029	4.9%
After five	703,986	5.0%	574,622	5.6%
Canadian provincial & municipal:				
After one through five	2,054,935	3.6%	2,926,870	4.2%
After five	3,725,982	5.3%	2,810,145	5.9%
Canadian corporate:				
After one through five	3,323,817	4.1%	3,138,361	4.6%
After five	2,724,872	5.5%	4,144,920	6.0%
Total bonds & debentures	$ 27,219,900		$ 29,292,812	

(b) Money market instruments

Money market instruments which comprise treasury bills and commercial paper have average effective interest rates of 2.8% (2001 – 2.8%) and an average remaining term to maturity of 64 days (2001 - 92 days). The Plan's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a Recognized Bond Rating Agency at the time of purchase.

(c) Pooled equity fund

The Plan owns units in an international pooled equity fund which has no fixed interest rate and its return is based on the success of the fund manager.

(d) Shares

Shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective dividend rate is 1.6% (2001 - 1.5%).

Included in shares are shares denominated in United States dollars with a carrying value of $4,556,541 (2001 - $6,005,417).

The Plan's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

4. INVESTMENT PERFORMANCE

The Plan's long-term investment performance objective is to achieve continued growth while avoiding unfunded liabilities and excessive volatility in annual rates of return. Continued growth remains a consideration in funding the liabilities associated with the active members as well as to provide ad hoc benefit increases to offset the impact of inflation. Based on these factors, the Plan can assume a low to moderate level of investment risk to achieve its investment objectives. Accordingly, a diversified long-term asset mix strategy with a bias to fixed income is warranted.

The investment manager makes day to day decisions on whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Superannuation Committee. It is these long-term investment performance objectives that are used to assess the performance of the investment manager.

The Superannuation Committee reviews the investment performance of the Plan regarding the performance of the benchmark portfolio over rolling four-year periods. For the four years ending Dec. 31, 2002, the Plan had an annualized gross rate of return of 5.1%. The investment objective for this four-year period (the return of the benchmark portfolio) was

3.6%. The rate of return generated by the Plan in 2002 before deducting investment expenses was – 0.9 %. The investment objective was –1.7 %.

5. OBLIGATIONS FOR PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and management's best estimate assumptions.

The actuarial valuation performed as at Dec. 31, 1999 by Aon Consulting and extrapolated to Dec. 31, 2001 and Dec. 31, 2002 includes a provision for uncommitted ad hoc benefit increases.

Measurement of the present value of accrued pension benefits is uncertain, as estimates must be made of future interest rates, inflation rates and post-retirement index rates. For purposes of this actuarial valuation long-term assumptions used include:

- an interest rate of 6.20% (2001 - 6.75%),
- an inflation rate of 3.00% (2001 - 3.00%),
- an expected salary increase of 4.0% (2001 - 4.00%), and
- a post-retirement index rate of 50% of CPI (2001 - 50% of CPI).

If the interest rate assumption and inflation rate assumption each changes by 1%, the effect is a change in the Plan surplus of $3,903,000 and $2,551,000 respectively. If the post-retirement index rate assumption changes by 10% of CPI, the effect is a change in the Plan surplus of $851,000. The actuarial present value of benefits as at December 31 and the principal components of changes during the year are as follows:

	2002	2001
Present value of accrued pension benefits at beginning of the year	$ 48,071,415	$ 50,663,513
Change in actuarial assumptions	1,721,000	(2,773,513)
Benefits accrued	294,424	253,830
Benefits and termination refunds paid	(3,292,123)	(3,205,375)
Interest accrued on benefits	3,150,000	3,132,960
Present value of accrued pension benefits at end of the year	$ 49,944,716	$ 48,071,415

The actuarial asset values used in the valuation are:

	2002	2001
Market value of net assets available for benefits	$ 49,292,803	$ 53,094,760
Market value changes not reflected in actuarial value of net assets	-	(3,408)
Actuarial value of net assets available for benefits	$ 49,292,803	$ 53,091,352

The Plan surplus (deficit) is determined as follows:

	2002	2001
Actuarial value of net assets available for benefits	$ 49,292,803	$ 53,091,352
Present value of accrued pension benefits	49,944,716	48,071,415
Plan surplus (deficit)	$ (651,913)	$ 5,019,937

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends. The valuation is based on a five-year moving average of the market value of the investments.

6. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

The costs to administer the Plan are borne by SGI and are not reflected in the accompanying financial statements. However, direct out of pocket expenses including audit, actuarial and consulting fees are paid by the Plan.

Other related party transactions are described separately in the notes.

7. FAIR VALUES

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) money market instruments
(b) accrued interest and dividends
(c) cash and bank overdraft
(d) accounts payable

The fair value of the obligation for pension benefits has been omitted because it is not practicable to determine fair value with sufficient reliability (note 5).

For investments, fair values are considered to be market value, the determination of which is described in note 2.